

October 16, 2000

OMB BULLETIN NO. 01-02

TO THE HEADS, INSPECTORS GENERAL, AND CHIEF FINANCIAL OFFICERS OF
EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audit Requirements for Federal Financial Statements

1. Purpose. This Bulletin, which includes an Attachment and Appendices A through I, establishes minimum requirements for audits of Federal financial statements. The Bulletin is issued under the authority of the Budget and Accounting Act of 1921, as amended, and the Budget and Accounting Procedures Act of 1950, as amended. It implements the audit provisions of the Chief Financial Officers (CFOs) Act of 1990 (P.L. 101-576), as amended, the Government Management Reform Act (GMRA) of 1994 (P.L. 103-356), and the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). The requirements of this Bulletin are set forth in the Attachment.
2. Applicability. The provisions of the Bulletin apply to audits of financial statements of executive departments and agencies and certain components of these agencies, listed in Appendices A and B, respectively.
3. Effective Date. The provisions of this Bulletin are effective for audits of financial statements for fiscal years (FYs) ending on or after September 30, 2000. Audit reports shall be submitted to the agency head in sufficient time to enable the agency head to meet the due date for submitting the audited financial statement under GMRA, no later than March 1 following the end of the fiscal year for which the financial statements are prepared.
4. Inquiries. Further information concerning this Bulletin may be obtained by contacting the Office of Management and Budget (OMB), Office of Federal Financial Management, Washington, DC 20503, telephone (202) 395-3993.
5. Copies. Individual copies of this Bulletin may be obtained from the OMB website on the Internet at <http://www.whitehouse.gov/OMB/financial>.

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Director

Attachment

Significant Revisions to OMB Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements," as amended		
Current Bulletin Reference (OMB 98-08, as amended reference, if different, in parentheses)	Revision	Purpose of Revision
Paragraph 2 (OMB 98-08 ¶¶2 and 5)	Replaced "federal accounting standards" with "generally accepted accounting principles" (GAAP) in the definitions in paragraph 2 and removed former paragraph 5, which discussed the prior hierarchy of accounting standards. Also made conforming changes where applicable throughout the Bulletin.	To reflect the American Institute of Certified Public Accountants' (AICPA's) recognition of FASAB standards as GAAP for Federal government entities. Auditors may now express an opinion that the financial statements of a Federal government entity are in conformity with GAAP, if they are prepared in accordance with FASAB standards.
Paragraph 5 (OMB 98-08 No reference - added new paragraph)	Added explicit guidance requiring open and timely communication throughout the audit.	To facilitate frequent and complete communication of audit matters between Inspectors General (auditors) and agency management.
Paragraph 6	Reorganized the subparagraphs under paragraph 6.	For clarity and to reduce redundancy.
Current - No reference-former paragraph deleted (OMB 98-08 ¶6.a.(1)(c))	Deleted former paragraph 6.a.(1)(c).	This guidance became obsolete with the issuance of Statement of Federal Financial Accounting Standards (SFFAS) No. 14, "Amendments to Deferred Maintenance Reporting," which was effective for periods beginning after September 30, 1998, and which changed the location of deferred maintenance information from a note to the principal statements to required supplementary information.
Current Paragraph 6.b.(2)(c) (OMB 98-08 ¶6.a.(5))	Changed treatment of social insurance information from "other accompanying information" to required supplementary information for audit purposes.	To revise the audit requirements for social insurance information to reflect SFFAS 17, "Accounting for Social Insurance," which is effective for FY 2000 and beyond.
Current Paragraph 6.e. (OMB 98-08 ¶6.b)	Revised paragraph to emphasize controls relating to intra-entity and intra-governmental transactions and balances.	Ensure controls are in place and operational relating to intra-entity and intra-governmental transactions and balances.

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Current Paragraph 6.h. (OMB 98-08 ¶6.e.)	Deleted specific guidance on testing Federal Financial Management Improvement Act of 1996 (FFMIA) requirements, pending completion of revisions to FFMIA implementation guidance.	An interagency task force is revising implementation guidance for FFMIA, which will be issued as a separate document in the fall of 2000.
Current Paragraph 6.b.(1) (OMB 98-08 ¶6.f.)	Consider Management's Discussion and Analysis (MD&A, previously referred to as Overview of Reporting Entity) as required supplementary information.	To revise the audit requirements for MD&A (Overview of Reporting Entity) to reflect SFFAS No. 15, "Management's Discussion and Analysis," which is effective for FY 2000 and beyond.
Current Paragraph 6.j. (OMB 98-08 No reference -added new paragraph)	Added guidance to auditors to consider audit guidance developed by the Accounting and Auditing Policy Committee (AAPC) and issued by OMB.	To recognize AAPC audit guidance.
Current Paragraphs 7.c.(1)(b) (OMB 98-08 ¶7.c.(1)(a) and 7.c.(1)(b))	Revised reporting requirements for MD&A and social insurance information.	To reflect the reporting based on the audit requirements for the information required by the new accounting standards effective for FY 2000 and beyond.
Current Paragraph 8. (OMB 98-08 ¶6.i.)	Relocated discussion of legal letters to Paragraph 8. Added requirement for management to prepare a schedule in a prescribed format to reflect how legal letter information was considered in the financial statements.	To provide additional guidance on the preparation of legal letters and to facilitate implementation of management's financial reporting responsibility for litigation and related audit coverage.
Appendix C	Added specific provisions of general laws to be tested.	To clarify that all provisions of the general laws listed in Appendix C need not be tested.
Appendix D	Removed FFMIA implementation guidance from the Bulletin.	An interagency task force is revising implementation guidance for FFMIA, which will be issued as a separate document in the fall of 2000.

Significant Revisions to OMB Bulletin No. 98-08, "Audit Requirements for Federal Financial Statements," as amended		
Current Bulletin Reference (OMB 98-08, as amended reference, if different, in parentheses)	Revision	Purpose of Revision
Appendix E	Revised illustrative management representation letter to include specific reference to reconciliation of intra-governmental transactions with relevant trading partners.	To emphasize management's responsibility for identifying intra-governmental transactions and balances and reconciling data with relevant trading partners.
Appendices F & G	Revised illustrative auditor's reports to reflect requirements of Statement on Auditing Standards (SAS) No. 87, "Restricting the Use of an Auditor's Report."	To illustrate the requirements of SAS No. 87 and clarify the auditor's responsibility for internal control and compliance.
Appendix H (OMB 98-08 No reference - added new appendix)	Added new Appendix H, with three distinct documents: illustrative legal letter inquiry (H-1), illustrative legal letter response (H-2), and format for management's schedule of legal letter information (H-3).	To provide additional guidance on the preparation of legal letters to conform with AU Section 337 requirements of the <u>Codification of Statement on Auditing Standards</u> , and to facilitate the collection of data concerning litigation, claims, and assessments for agency-wide and government-wide reporting.
Appendix I (OMB 98-08 Appendix H)	OPM's Agreed Upon Procedures (AUPs), formerly presented in Appendix H, have been re-designated Appendix I. OPM's AUPs revised to reflect the use of RITS data vs. data from Form 2812.	To reflect more widespread use of electronic information.

AUDITS OF FEDERAL FINANCIAL STATEMENTS

1. BACKGROUND. The Government Management Reform Act (GMRA) of 1994 amended the requirements of the Chief Financial Officers (CFOs) Act of 1990 by requiring, among other things, the annual preparation and audit of organizationwide financial statements of 24 executive departments and agencies (Appendix A). The GMRA also requires audited financial statements of components of executive departments and agencies designated by the Director of the Office of Management and Budget (OMB), which are identified in Appendix B. In addition, the Federal Financial Management Improvement Act (FFMIA) of 1996 requires, among other things, that the report on these audits state whether the agency financial management systems comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level.

2. DEFINITIONS. For the purposes of this Bulletin, the following definitions apply:

- a. "Annual Financial Statement" means the financial statement of a reporting entity as described in Section 3515 of Title 31 of the United States Code and OMB Bulletin 97-01, "Form and Content of Agency Financial Statements" and subsequent issuances (OMB's Form and Content Bulletin), and, shall be comprised of:
 - (1) Management's Discussion and Analysis (also called Overview of the Reporting Entity).
 - (2) Principal Statements and Related Notes. The Principal Statements¹ include the following financial statements and notes thereto:
 - (a) Balance Sheet.
 - (b) Statement of Net Cost.
 - (c) Statement of Changes in Net Position.
 - (d) Statement of Budgetary Resources.
 - (e) Statement of Financing.
 - (f) Statement of Custodial Activity, if applicable.
 - (g) Notes to Principal Statements.
 - (3) Required Supplementary Stewardship Information, if applicable.
 - (4) Required Supplementary Information, if applicable.
 - (5) Other Accompanying Information, if applicable.

¹ This list is included in OMB's Form and Content Bulletin, which prescribes the Principal Statements that shall be prepared.

- b. Codification of Statements on Auditing Standards is a codification of Statements on Auditing Standards issued by the American Institute of Certified Public Accountants (AICPA). The AICPA's standards of field work and reporting are incorporated in their entirety in Government Auditing Standards by reference.
- c. "Federal Financial Management Improvement Act of 1996 (FFMIA) section 803(a) requirements" are Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Agencies are required to establish and maintain financial management systems that comply substantially with these requirements.
- d. "Generally accepted accounting principles" (GAAP) for Federal government entities are identified in Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, Amendment to SAS 69, *The Meaning of Present Fairly In Conformity With Generally Accepted Accounting Principles in the Independent Auditor's Report*, which is codified in AU Sections 411.11- 411.16 of the AICPA's Codification of Statements on Auditing Standards. Federal financial statements shall be prepared in accordance with OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," and subsequent OMB issuances. The requirements of OMB's Form and Content Bulletin are generally accepted accounting principles because they constitute "practices that are widely recognized and prevalent in the federal government" under category (d) of the *Federal GAAP Hierarchy*.
- e. Government Auditing Standards are those standards issued by the Comptroller General of the United States.
- f. "Independent auditor" means an auditor who meets the independence standards specified in the Government Auditing Standards.
- g. "Internal control" as it relates to the Principal Statements and Required Supplementary Stewardship Information, is a process, effected by the agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met:
 - (1) Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Principal Statements and Required Supplementary Stewardship Information in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
 - (2) Compliance with applicable laws and regulations - transactions are executed in accordance with: (a) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the Principal

Statements or Required Supplementary Stewardship Information, and (b) any other laws, regulations, and governmentwide policies identified by OMB in Appendix C of this Bulletin; and

- (3) Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
- h. "Management letter" means a letter prepared by the auditor which discusses findings and recommendations for improvements in internal control, that were identified during the audit and were not required to be included in the auditor's report on internal control, and other management issues. See Chapter 5, paragraph 5.28 of Government Auditing Standards.
- i. "Management's Discussion and Analysis (MD&A)" means a brief narrative overview, prepared by management, which describes the reporting entity and its mission, activities, program and financial results, and financial condition. Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*, requires MD&A to be included in each annual financial statement as required supplementary information. OMB's Form and Content Bulletin refers to MD&A as "Overview of the Reporting Entity" and provides additional guidance.
- j. "Material weaknesses in internal control" are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud or noncompliance in amounts that would be material in relation to the Principal Statements or Required Supplementary Stewardship Information being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The auditor shall use this definition of material weaknesses to report on an entity's internal control in accordance with the requirements of Government Auditing Standards and this Bulletin, rather than the definition of material weaknesses used by management to prepare an agency's Federal Managers' Financial Integrity Act (FMFIA) of 1982 report.
- k. "Reportable conditions" are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, that could adversely affect the organization's ability to meet the objectives in paragraph 2.g. of this Bulletin.
- l. "Reporting Entity" means one of the executive departments and agencies and components of such departments and agencies listed in Appendices A and B, or an agency, bureau, or other organization that represents a meaningful unit for program

management, for which a financial statement is prepared, and for which management chose to have an audit performed in accordance with this Bulletin. OMB's Form and Content Bulletin further defines "Reporting Entity."

- m. "United States Government Standard General Ledger (SGL)" means the uniform chart of accounts prescribed by the Department of the Treasury in its Treasury Financial Manual.

3. FREQUENCY OF AUDIT. Audits shall be performed annually.

4. RESPONSIBILITY FOR AUDIT. For purposes of this Bulletin, the following responsibilities apply:

- a. For the 24 executive departments and agencies and selected components of such departments and agencies listed in Appendices A and B, the audits of financial statements shall be performed by the Inspector General (IG) of the executive department or agency or by an independent auditor as determined by the IG.
- b. GMRA provides that, in lieu of an audit otherwise required, the Comptroller General of the United States may, at his or her discretion and following consultation with the IG, perform the audit.

5. COMMUNICATION. There shall be open and timely communication between agency management, including the CFO, and the Inspector General (and the audit firm, if the audit is contracted out) throughout the audit process. The purpose of this communication is to ensure that all parties are kept up to date on the progress and results of the audit to avoid "surprises" at the end. Matters that should be communicated include, but are not limited to, the following:

- a. The audit timetable and changes thereto,
- b. Issues or problems arising in the conduct of the audit, including the inability or difficulty in gaining access to records or lack of cooperation of agency personnel, and
- c. Potential audit findings as they are developed, including indications of materially misstated or unsupported amounts in the financial statements, reportable conditions and material weaknesses in internal control, and material noncompliance with laws and regulations (including FMFIA).

6. SCOPE OF AUDIT. Financial statements shall be audited in accordance with Government Auditing Standards and the provisions of this Bulletin.

- a. The auditor shall determine whether the Principal Statements present fairly, in all material respects, in conformity with generally accepted accounting principles, the

assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations; and, if applicable, custodial activity.

- (1) If consolidating statements are presented, the auditor shall consider the consolidating statements supplemental information and report in accordance with paragraph 7.c.(1)(a) of this Bulletin, unless the auditor's objective is to express an opinion on the consolidating statements.
 - (2) If the auditor is unable to determine whether the Principal Statements are fairly presented because, for example, of the auditor's inability to obtain sufficient competent evidential matter due to inadequate accounting records, the auditor shall, to the extent practicable, obtain sufficient evidence about closing balances to enable the auditor to opine on the subsequent year's financial statements.
- b. The auditor shall perform the procedures described in AU Section 558, "Required Supplementary Information," of the Codification of Statements on Auditing Standards for the following:
 - (1) Management's Discussion and Analysis.
 - (2) Required Supplementary Stewardship Information, including:
 - (a) Stewardship property, plant, and equipment (PP&E) (including national defense assets (weapon systems and systems support), stewardship land (most Federally-owned lands, such as national parks, but excluding land that meets the definition of general PP&E), and heritage assets (those assets having historical, natural cultural, educational, architectural, or artistic characteristics)),
 - (b) Stewardship investments (including non-Federal physical property (such as highways), human capital (expenditures for training and education), and research and development), and
 - (c) Social insurance information.
 - (3) Required Supplementary Information referred to in paragraph 2.a.(4) of this Bulletin.
- c. The auditor shall determine whether risk-assumed information (including projections of pension, deposit, and other insurance programs required by SFFAS No. 5, "Accounting for Liabilities of the Federal Government") is presented fairly in all material respects, in accordance with the requirements of SFFAS No. 5, and any subsequent

revisions. In assessing the reasonableness of risk-assumed information, the auditor shall consider the need to follow the guidance in Auditing (AU) Section 336, “Using the Work of a Specialist,” of the Codification of Statements on Auditing Standards.

- d. The auditor shall assess whether the other accompanying information referred to in paragraph 2.a.(5) of this Bulletin, or its manner of presentation, is materially inconsistent with the information in the Principal Statements.
- e. With respect to the internal control objectives described in paragraphs 2.g. (1) and (2) of this Bulletin relating to the Principal Statements and Required Supplementary Stewardship Information, the auditor shall obtain an understanding of the components of internal control (see AU Section 319.07 of the Codification of Statements on Auditing Standards) and assess the level of control risk relevant to the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements. Such controls include relevant EDP general and application controls and controls relating to intra-entity and intra-governmental transactions and balances. For those internal controls that have been properly designed and placed in operation, the auditor shall perform sufficient tests to support a low assessed level of control risk. See AU Section 319.45-.63 of the Codification of Statements on Auditing Standards. Those internal controls that have not been properly designed or placed in operation and those internal controls that are found to be ineffective shall be reported in accordance with paragraph 7 of this Bulletin.
 - (1) In obtaining an understanding of the components of internal control, particularly the risk assessment component, and assessing control risk, the auditor shall obtain an understanding of the process by which the agency identifies and evaluates weaknesses required to be reported under FMFIA and related agency implementing procedures.
 - (2) The auditor shall compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements of the entity under audit and document material weaknesses disclosed by audit that were not reported in the agency's FMFIA report. The auditor should consider whether the failure to detect and report material weaknesses constitutes a reportable condition or material weakness in the entity's internal control.
- f. With respect to the internal control objective described in paragraph 2.g. (3) of this Bulletin relating to performance measures, the auditor shall obtain an understanding of the components of internal control relating to the existence and completeness assertions relevant to the performance measures included in the MD&A. Those internal controls

that have not been properly designed and placed in operation shall be reported in accordance with paragraph 7 of this Bulletin. The objective of gaining an understanding of internal control in this subparagraph is to report deficiencies in the design of internal control, rather than to plan the financial statement audit.

- g. With respect to compliance with applicable laws and regulations, the auditor shall perform tests of compliance with laws and regulations that could have a direct and material effect on the Principal Statements and Required Supplementary Stewardship Information, including laws governing the use of budget authority, and any other laws, regulations, and governmentwide policies identified by OMB in Appendix C of this Bulletin.
- h. The auditor shall perform tests of the entity's compliance with Federal Financial Management Improvement Act of 1996 (FFMIA), section 803(a) requirements. This provision only applies to audits of entities listed in Appendices A and B.²
- i. The auditor shall obtain written representation from management as part of an audit conducted in accordance with this Bulletin. See AU Section 333, "Management Representations," of the Codification of Statements on Auditing Standards. An illustrative management representation letter is provided in Appendix E.
- j. In planning and performing the audit, the auditor should consider relevant audit guidance contained in documents developed by the Accounting and Auditing Policy Committee (AAPC) and adopted by OMB.

7. AUDIT REPORT.

- a. An audit report, or separate audit reports, on the Principal Statements, internal control, and compliance shall be prepared at the completion of the audit. The audit report(s) shall be submitted to the agency head in sufficient time to enable the agency head to meet the due date for submitting the audited financial statement under GMRA, no later than March 1 following the end of the fiscal year for which the financial statements were prepared. The audit results shall be discussed with management as soon as practicable but, in any case, prior to issuance of the audit report.
- b. The audit report(s) shall state that the audit was made in accordance with Government Auditing Standards and the provisions of this Bulletin.

² An interagency task force is revising the FFMIA implementation guidance formerly located in Appendix D of the OMB Audit Bulletin. It will be issued as a separate document in the fall of 2000.

c. The audit report(s) shall include:

- (1) An opinion as to whether the reporting entity's Principal Statements are fairly presented in all material respects in conformity with generally accepted accounting principles. See AU Section 508 of the Codification of Statements on Auditing Standards.
 - (a) If the Principal Statements are materially affected by a departure from generally accepted accounting principles, the auditor shall issue a qualified or adverse opinion and include an explanatory paragraph that describes the departure(s) from those standards and, if practicable, the effects of the departure(s) on assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations; and, if applicable, custodial activity. If the effects of the departure(s) are disclosed in a note to the Principal Statements, the explanatory paragraph may be shortened by referring to it.
 - (b) If the auditor disclaims an opinion, the report shall describe why the auditor was unable to conduct the audit in accordance with Government Auditing Standards and this Bulletin. If material weaknesses and other reportable conditions prevented the conduct of the audit in accordance with Government Auditing Standards and this Bulletin, such conditions shall be included in the report on internal control described in paragraph 7.c.(2), along with recommendations for correcting the condition(s).
 - (c) When there is a change in accounting principles, for example, changes to comply with SFFASs, the auditor's report on the Principal Statements shall include an explanatory paragraph identifying the nature of the change and referring the reader to the note to the Principal Statements that discusses the change in detail.
 - (d) With respect to reporting on MD&A, required supplementary stewardship information, and required supplementary information referred to in paragraph 6.b., the auditor shall follow AU Section 551.15 of the Codification of Statements on Auditing Standards.
 - (e) With respect to reporting on other accompanying information referred to in paragraph, 2.a.(5), the auditor shall follow AU Section 551, "Reporting on Information Accompanying the Basic Financial

Statements in Auditor-Submitted Documents,” of the Codification of Statements on Auditing Standards.

- (2) A report on internal control³, which shall at a minimum:
 - (a) State that, with respect to internal control over financial reporting as described in paragraphs 2.g.(1) and (2) of this Bulletin, the auditor obtained an understanding of the design of internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of the reporting entity's internal controls.
 - (b) State that, with respect to the internal control objective described in paragraph 2.g.(3) of this Bulletin, and relating to the performance measures included in the MD&A, the auditor obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation.
 - (c) State whether or not the tests performed provided sufficient evidence to support an opinion on internal control.
 - (d) Describe reportable conditions and material weaknesses identified during the audit.
 - (e) Identify those material weaknesses disclosed by audit that were not reported in the reporting entity's FMFIA report.
- (3) A report on the reporting entity's compliance with applicable laws, regulations, and governmentwide policy requirements.⁴
 - (a) The auditor shall report noncompliance with laws and regulations disclosed by audit, except for those instances of noncompliance that, in the auditor's judgment, are clearly inconsequential. In meeting this requirement, the auditor shall list those laws and regulations that tests disclosed reportable instances of noncompliance.

³ An illustrative auditor's report on internal control is provided in Appendix F. Use of this guidance is optional.

⁴ An illustrative auditor's report on compliance with laws and regulations is provided in Appendix G. Use of this guidance is optional.

- (b) With respect to laws and regulations tested for which the audit disclosed no reportable instances of noncompliance, the report shall state that the audit disclosed no reportable instances of noncompliance with these laws and regulations. A listing of these laws and regulations is not required.
- (c) Section 803(b) of FFMIA requires the auditor to report whether the reporting entity's financial management systems substantially comply with FFMIA section 803(a) requirements.⁵ To meet this requirement, for each of the three FFMIA section 803(a) requirements, the audit report shall reflect instances in which the reporting entity's systems did not substantially comply with the requirement, or state that the audit disclosed no instances in which the reporting entity's systems did not substantially comply. If the audit disclosed no instances of substantial noncompliance with any of the three FFMIA section 803(a) requirements, a single statement to this effect is sufficient. Where tests disclosed that the reporting entity's systems did not substantially comply with one or more of the three requirements, the auditor's report on compliance, (or an accompanying schedule that is referenced in the compliance report) should group findings together based on the requirement they relate to (i.e., Federal financial management systems requirements, applicable Federal accounting standards, or the U.S. Standard General Ledger) and, as required by FFMIA:
 - (i) Identify the entity or organization responsible for the financial management systems that were found not to comply with the requirements.
 - (ii) Include all facts pertaining to the noncompliance, including the nature and extent of the noncompliance, the primary reason or cause of the noncompliance, and any relevant comments from reporting entity management or employees responsible for the noncompliance.
 - (iii) Provide recommended remedial actions and the time frames to implement such actions.

⁵ An interagency task force is revising the FFMIA implementation guidance formerly located in Appendix D of the OMB Audit Bulletin. It will be issued as a separate document in the fall of 2000.

- (d) With respect to the objectives of tests of compliance generally, the auditor's report on compliance shall state whether or not providing an opinion on compliance was an objective of the audit and whether or not the tests performed provided sufficient evidence to support an opinion.
- d. In preparing the reports in paragraph 7.c., the auditor shall report the status of known but uncorrected material findings and recommendations from prior audits that affect the current audit objectives. See Chapter 4, paragraphs 4.7, 4.10, and 4.11 of Government Auditing Standards.
- e. The reporting entity shall provide comments on the auditor's findings and recommendations included in the audit report, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings. To the extent practical, these comments shall be included in the audit report on internal control or report on compliance, as applicable. If corrective actions are not necessary, an explanatory statement shall be included in the applicable audit report.
- f. Copies of the audit report shall be distributed to the head of the executive department or agency and subsequently included in the CFO's annual report or the agency's Accountability Report.

8. LEGAL LETTERS AND MANAGEMENT'S SCHEDULES. In accordance with AU Section 337, "Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments," of the Codification of Statements on Auditing Standards, the auditor shall request entity management to send a letter of inquiry to those lawyers with whom management consulted concerning litigation, claims and assessments. (See Appendix H-1 for an illustrative letter of inquiry from entity management to legal counsel.) Management should document in a schedule how the information contained in the legal counsel's response(s) was considered in preparing the financial statements. Legal letters and management's schedules are required for the audits of agency financial statements and the "Financial Report of the United States Government."

- a. Legal counsels shall consider the guidance contained in the American Bar Association's "Statement of Policy Regarding Lawyers' Responses to Auditors' Request for Information" (December 1975) in preparing their responses. (See Appendix H-2 for an illustrative response letter from legal counsel to the auditor).

- b. To satisfy management's responsibilities under SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended, related to contingent liabilities arising from litigation, and to facilitate the audit thereof, the CFO shall prepare a schedule to document how the information contained in the legal counsel's response was considered in preparing the financial statements. (See Appendix H-3 for the format to be used for management's schedule.)
- c. The timing of legal letter requests, responses, and related management's schedules shall be coordinated between agency legal counsel, agency management, and the auditor, in consideration of the following:
 - (1) Audit of agency financial statements. The auditor's request to agency management to send a letter of inquiry to agency counsel should follow AU Section 337 of the Codification of Statements of Auditing Standards, and its interpretations (AUI Section 337), with respect to the timing of the letter of inquiry and the effective and response dates for the legal counsel response(s). Management's schedule should be provided at the same time as the legal counsel's response is provided to the auditor. Depending on the anticipated completion date for the agency's financial statement audit, the auditor, CFO and legal counsel may want to plan the timing of the requests, legal responses and management schedules to minimize the need to obtain additional or updated legal counsel responses and management schedules for the consolidated audit. (See paragraph 8.c.(2) below.)
 - (2) Audit of the "Financial Report of the United States Government." The letter of inquiry should be sent to legal counsel no later than October 15 after the end of the fiscal year. Interim and updated agency legal counsel responses and management schedules, effective no earlier than December 1 and February 15, respectively, shall be submitted to the auditor. Updated legal responses and management schedules need only include changes from the interim responses/schedules, or a statement that there are no changes. After applying applicable audit procedures, interim and updated legal letters and management schedules shall be submitted by the Inspector General to OMB (Deputy Controller, Office of Federal Financial Management), Department of the Treasury (Commissioner, Financial Management Service), and the General Accounting Office (Managing Director, Finance and Assurance Team) no later than December 31 and March 6, respectively. Mailing addresses for these officials can be found on the OMB website at <http://www.whitehouse.gov/OMB/financial>.

9. MANAGEMENT LETTER. Other deficiencies in internal control, that are not required to be included in the audit report, but that the auditor considers necessary to communicate, should be separately communicated to management of the reporting entity in a management letter. If a

management letter containing other deficiencies in internal control is issued, the auditor shall refer to that management letter in the auditor's report on internal control (see paragraph 5.28 of Government Auditing Standards).

10. AGREED-UPON PROCEDURES: RETIREMENT, HEALTH BENEFITS, AND LIFE INSURANCE WITHHOLDINGS/CONTRIBUTIONS AND SUPPLEMENTAL SEMIANNUAL HEADCOUNT REPORT SUBMITTED TO THE OFFICE OF PERSONNEL MANAGEMENT (OPM). The Agreed-Upon Procedures (AUPs) enumerated in Appendix I-1 shall be performed annually for each entity listed in Appendix A. See AU Section 622, "Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement," of the Codification of Statements on Auditing Standards. The AUPs are designed to assist OPM in assessing the reasonableness of the Retirement, Health Benefits, and Life Insurance withholdings/contributions as well as semiannual headcount information submitted by agencies. The AUPs shall be applied to the 12 months ended September 30 of each year. To facilitate meeting the reporting deadline specified in paragraph 10.b., interim work is encouraged. If a specific AUP cannot be performed, the auditor should submit to OPM written proposed alternate procedures that would accomplish the AUP objectives.

- a. The AUPs shall be applied separately, and the results reported separately, for each Agency Payroll Office (APO) that services 30,000 or more employees.
 - (1) If an agency does not have an APO that services 30,000 or more employees, it shall perform the AUPs on its largest APO serviced by the employing agency. If a cross-servicing agency does not have an APO that services 30,000 or more employees, the AUPs must be applied to the largest APO serviced by the cross-servicing agency.
 - (2) Where an agency performs payroll cross-servicing functions for other agencies, the auditor of the cross-servicing agency will be the principal auditor for the purpose of applying these AUPs. The extent of participation by the auditors for the employing agencies should be determined in conjunction with the principal auditor.
- b. The report on the application of these procedures shall be submitted no later than the December 15 following the end of the fiscal year for which the financial statements are prepared. To the extent practical, management's comments on the auditor's findings shall be included in the report. Agencies shall notify OPM by November 15 of each year at the address in 10c. of any anticipated delays or difficulties in completing the AUPs and submitting the required report by the December 15 deadline.

- c. Agencies shall submit three copies of the report on the application of these procedures to the Inspector General of OPM at the following address:

U.S. Office of Personnel Management
Office of Inspector General
Room 6400
1900 E Street, N.W.
Washington, DC 20415

11. INSPECTOR GENERAL OVERSIGHT.

- a. IGs shall:
- (1) Ensure that audits are performed and audit reports completed in a timely manner and in accordance with the requirements of this Bulletin. This responsibility pertains to audits conducted directly by IG staff and audits conducted by independent auditors under contract.
 - (2) Provide technical advice and liaison to agency officials and independent external auditors.
 - (3) Obtain or conduct quality control reviews of audits made by independent external auditors and provide the results, when appropriate, to other interested organizations.
 - (4) Monitor and report on management's progress in resolving audit findings related to audits made pursuant to this Bulletin, in accordance with the Inspector General Act of 1978, as amended, the provisions of OMB Circular A-50, "Audit Followup," and FFMIA.
- b. IGs are encouraged to work with CFOs to accelerate the preparation of financial statements, and to accelerate the completion of audits.

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- Appendix B: Components of Executive Departments and Agencies Required to Prepare Financial Statements
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APPENDIX A

EXECUTIVE DEPARTMENTS AND AGENCIES REQUIRED TO PREPARE FINANCIAL STATEMENTS

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Department of Veterans Affairs
Agency for International Development
Environmental Protection Agency
Federal Emergency Management Agency
General Services Administration
National Aeronautics and Space Administration
National Science Foundation
Nuclear Regulatory Commission
Office of Personnel Management
Small Business Administration
Social Security Administration

**COMPONENTS OF EXECUTIVE DEPARTMENTS AND AGENCIES REQUIRED TO
PREPARE FINANCIAL STATEMENTS⁶**

Department of Agriculture

Food and Nutrition Service
Forest Service
Rural Development Mission Area

Department of Defense

Department of Army General Funds
Department of Navy General Funds
Department of Air Force General Funds
Military Retirement Trust Fund
U.S. Army Corps of Engineers Civil Works Program
Department of Army Working Capital Fund
Department of Navy Working Capital Fund
Department of Air Force Working Capital Fund

Department of Health and Human Services

Health Care Financing Administration

Department of Transportation

Federal Aviation Administration
Highway Trust Fund

Department of the Treasury

Bureau of Alcohol, Tobacco and Firearms
Internal Revenue Service
United States Customs Service

Office of Personnel Management

Civil Service Retirement and Disability Fund
Federal Employees Health Benefits Program
Federal Employees Life Insurance Program

⁶ The requirement for components to prepare financial statements may be satisfied by presenting the components separately in consolidating agencywide financial statements and conducting an audit, in accordance with this Bulletin, at the consolidating financial statement level.

GENERAL LAWS⁷

Anti-Deficiency Act (codified as amended in 31 U.S.C. 1341, 1342, 1351, 1517)

- 31 U.S.C. 1341(a)(1)(A) and (C)
- 31 U.S.C. 1517 (a)

Provisions Governing Claims of the United States Government as provided primarily in sections 3711-3720E of Title 31, United States Code (including provisions of the Debt Collection Improvement Act of 1996, Pub. L. No. 104-134, 110 Stat. 1321-358, which also is codified in various sections of 5 U.S.C., 18 U.S.C., 26 U.S.C., 28 U.S.C., 31 U.S.C., 42 U.S.C.)

- 31 U.S.C. 3711
- 31 U.S.C. 3717 (a), (b), (c), (e) and (f)
- 31 U.S.C. 3719

Federal Credit Reform Act of 1990, Pub. L. No. 101-508, 104 Stat. 1388-610 (codified in various sections of 2 U.S.C.)

- 2 U.S.C. 661(b) and (e)

Pay and Allowance System for Civilian Employees as provided primarily in Chapters 51-59 of Title 5, United States Code

- 5 U.S.C. 5332 and 5343
- 29 U.S.C. 206

Prompt Payment Act (codified as amended in 31 U.S.C. 3901-3907)

- 31 U.S.C. 3902(a), (b), and (f)
- 31 U.S.C. 3904

⁷ The auditor is not expected to test all provisions of each law presented. However, the auditor is expected to test, at a minimum, the provisions cited above.

APPENDIX D

THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 OMB IMPLEMENTATION GUIDANCE FOR CFOs and IGs

This guidance is being revised by an interagency task force and it is expected to issued as a separate document in the fall of 2000.

ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER⁸

[Entity Letterhead]

[Date of auditor's report]

[Name and title of head of audit organization]

[Address of audit organization]

Dear [name of head of audit organization]:

This letter is in connection with your audits of the [entity's] Principal Statements (also referred to as "financial statements") [list Principal Statements] as of [end of year(s) covered by Principal Statements] and for the year(s) then ended for the purposes of (1) expressing an opinion as to whether the Principal Statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and (2) reporting whether the agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of [the end of the period(s) covered by the financial statements].

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits, that these representations are as of the date of your auditor's report, and pertain to the period [or periods] covered by the financial statements. *[If comparative statements are presented the following sentence should be added: "These representations update the representations we provided in conjunction with your audit of the financial statements as of and for the year ended (state year)."]*

1. We are responsible for the fair presentation of the Principal Statements and Required Supplementary Stewardship Information in conformity with generally accepted accounting principles.

⁸ This illustrative management representation letter must be customized to the situation of the audited entity. Representations number 1-13 relate to the opinion on the financial statements; numbers 14-16 relate to management's assertion about the effectiveness of internal control; numbers 17-19 relate to management's assertion about the financial management systems' substantial compliance with Federal financial management system requirements; and numbers 20-22 relate to compliance with laws and regulations. AU Section 333, "Management Representations," Codification of Statements on Auditing Standards, provides examples of additional representations that may be appropriate.

2. The financial statements are fairly presented in conformity with generally accepted accounting principles.
3. We have made available to you, all
 - a. financial records and related data;
 - b. where applicable, minutes of meetings of the Board of Directors [or other similar bodies] or summaries of actions of recent meetings for which minutes have not been prepared; and
 - c. communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.
5. The [entity] has satisfactory title to all owned assets, including stewardship property, plant, and equipment; such assets have no liens or encumbrances, nor have any assets been pledged.
6. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
7. Guarantees under which the agency is contingently liable have been properly reported or disclosed.
8. Related party transactions and related accounts receivable or payable, including assessments, loans, and guarantees have been properly recorded and disclosed.
9. All intra-entity transactions and balances have been appropriately identified and eliminated for financial reporting purposes, unless otherwise noted. All intra-governmental transactions and balances have been appropriately recorded, reported, and disclosed. We have reconciled intra-governmental transactions and balances with the appropriate trading partners for the four fiduciary transactions identified in Treasury's *Intra-governmental Fiduciary Transactions Accounting Guide*, and other intra-governmental asset, liability and revenue amounts as required by OMB Bulletin 97-01, as amended.
10. There are no:
 - a. possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency;

- b. material liabilities or gain or loss contingencies that are required to be accrued or disclosed, that have not been accrued or disclosed; or
 - c. unasserted claims or assessments that are probable of assertion and that must be disclosed, that have not been disclosed.
- 11. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 12. No material events or transactions have occurred subsequent to [the date of latest audited financial statements] that have not been properly recorded in the Principal Statements and Required Supplementary Stewardship Information or disclosed in the notes thereto.
- 13. There has been no material fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material affect on the Principal Statements or Required Supplementary Stewardship Information) or any fraud involving management or employees who have significant roles in internal control. [Fraud meeting foregoing criteria should be described.]
- 14. We are responsible for establishing and maintaining internal control.
- 15. Pursuant to the Federal Managers' Financial Integrity Act, we have assessed the effectiveness of [entity's] internal control in achieving the following objectives:
 - a. Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Principal Statements and Required Supplementary Stewardship Information in accordance with generally accepted accounting principles, and that assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
 - b. Compliance with applicable laws and regulations - transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (ii) any other laws, regulations, and government wide policies identified by the Office of Management and Budget (OMB) in Appendix C of OMB's Audit Bulletin; and
 - c. Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.
- 16. Those controls in place on September 30, 20XX [or date of latest audited financial statements] provided reasonable assurance that the foregoing objectives are met.

If there are material weaknesses in internal control, the foregoing representation should be modified to read: “Those controls in place on September 30, 20XX, provided reasonable assurance that the foregoing objectives are met except for the effects of the material weaknesses discussed below (or in the attachment),” or a statement that “internal controls are not effective” or “do not meet the foregoing objectives.”

17. We are responsible for implementing and maintaining financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level.
18. We have assessed the financial management systems to determine whether they comply substantially with these Federal financial management systems requirements. Our assessment was based on guidance issued by OMB.
19. The financial management systems complied substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the SGL at the transaction level as of the [date of financial statements].

[If the financial management systems substantially comply with only one or two of the above elements, this representation should be modified as in the following example:

As of [date of financial statements], the entity's financial management systems comply substantially with [specify which of the three elements for which there is substantial compliance (e.g., applicable Federal standards and the SGL at the transaction level)], but did not comply substantially with [specify which of the elements for which there was a lack of substantial compliance (e.g., federal financial management systems requirements)] as described below (or in an attachment).]

[If the financial management systems do not comply substantially with any of the three elements, use the following paragraph:

As of [date of financial statements], the entity's financial management systems do not comply substantially with the Federal financial management systems requirements. This representation does not change the representation in paragraph 2 of this letter.]

If there is a lack of substantial compliance with one or more of the three requirements, identify herein, or in an attachment, all the facts pertaining to the noncompliance, including the nature and extent of the noncompliance and the primary reason or cause of the noncompliance.

20. We are responsible for [entity's] compliance with applicable laws and regulations.

21. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.
22. We have disclosed to you all known instances of noncompliance with laws and regulations.

[Signed by Agency Head]

[Signed by Chief Financial Officer]

ILLUSTRATIVE AUDITOR'S REPORT ON INTERNAL CONTROL

[Addressee]

We have audited the Principal Statements (hereinafter referred to as "financial statements") of [Name of Federal Agency] as of and for the year ended September 30, XXXX, and have issued our report thereon dated _____. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audit, we considered [Name of Federal Agency]'s internal control over financial reporting by obtaining an understanding of the agency's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.⁹

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters

⁹ If the objective is to express an opinion on the agency's internal control over financial reporting, the auditor should follow Statement on Standards for Attestation Engagements No. 2, "Reporting on an Entity's Internal Control Over Financial Reporting," issued by the American Institute of Certified Public Accountants.

[discussed in the following paragraphs or accompanying schedule] involving the internal control and its operation that we consider to be reportable conditions [and material weaknesses].

If none of the reportable conditions is believed to be a material weakness, the report should state the following: “However, none of the reportable conditions is believed to be a material weakness.”

If no reportable conditions were noted during the audit, the report should state the following: “However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.”

In addition, we considered [Name of Federal Agency]’s internal control over Required Supplementary Stewardship Information by obtaining an understanding of the agency’s internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin No. 01-02 and not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

Finally, with respect to internal control related to performance measures reported in [refer to section of financial statement or accountability report], we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

If conditions came to the auditor’s attention that in his or her judgment represent significant deficiencies in the design or operation of internal control over performance measures, which could adversely affect the agency’s ability to collect, process, record, and summarize performance information and report performance measures in accordance with management’s criteria, the following sentence should be added to the foregoing paragraph. “However, we noted certain significant deficiencies in internal control over reported performance measures [discussed in the following paragraphs or accompanying schedule] that, in our judgment, could adversely affect the agency’s ability to collect, process, record, and summarize performance information and report performance measures in accordance with management’s criteria.”

This report is intended solely for the information and use of the management of [Name of Federal Agency], OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

ILLUSTRATIVE AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

[Addressee]

We have audited the Principal Statements (hereinafter referred to as "financial statements") of [Name of Federal Agency] as of and for the year ended September 30, XXXX, and have issued our report thereon dated _____. We conducted our audit in accordance with: generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of [Name of Federal Agency] is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to [Name of Agency].

The results of our tests of compliance with the laws and regulations described in the preceding paragraph exclusive of FFMIA¹⁰ disclosed instances of noncompliance with the following laws and regulations that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02, which are described below.

Describe any instances of noncompliance required to be reported and list laws and regulations for which noncompliance was disclosed exclusive of FFMIA [or provide such information in an accompanying schedule]

¹⁰ FFMIA requires reporting on whether an agency's financial management systems substantially comply with the FFMIA section 803 (a) requirements relating to Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger published by the Department of the Treasury. FFMIA imposes additional reporting requirements when tests disclose instances in which agency systems do not substantially comply with the foregoing requirements.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under Government Auditing Standards or OMB Bulletin No.01-02.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

[If the results of tests disclosed that the agency's systems did not substantially comply with one or more of the foregoing requirements, the preceding sentence should be replaced with the following:

The results of our tests disclosed instances, described below (or described in an accompanying schedule), where the agency's financial management systems did not substantially comply with *[specify which of the three requirements where a lack of substantial compliance was found, e.g. Federal financial management systems requirements and the U.S. Government Standard General Ledger at the transaction level]*.

[If the results of the audit disclosed no lack of substantial compliance with one or two of the foregoing requirements, add the following:

The results of our tests disclosed no instances in which the agency's financial management systems did not substantially comply with *[specify which of the three requirements where a lack of substantial compliance was **not** found, e.g., applicable Federal accounting standards]*.

In addition, when tests disclosed that the agency's systems did not substantially comply with the foregoing requirements, the auditor's report on compliance or an accompanying schedule should provide the following information as required by FFMIA and paragraph 7.c.(3)(c) of this Bulletin. Findings should be grouped together based on the requirement they relate to (i.e., Federal financial management systems requirements, applicable Federal accounting standards, or the U.S. Government Standard General Ledger).

- 1. The entity or organization responsible for the financial management systems that were found not to comply with the requirements.*
- 2. All facts pertaining to the noncompliance, including: (a) the nature and extent of the noncompliance, (b) the primary reason or cause of the noncompliance, and (c) any relevant*

comments from reporting entity management or employees responsible for the noncompliance.

3. *Recommended remedial actions and the time frames to implement such actions.*]

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.¹¹

This report is intended solely for the information and use of the management of [*Name of Federal Agency*], OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature*]

[*Date*]

¹¹ If the objective is to express an opinion on the agency's compliance with laws and regulations, the auditor should follow Statement on Standards for Attestation Engagements No. 3, "Compliance Attestation," issued by the American Institute of Certified Public Accountants.

ILLUSTRATIVE LETTER OF INQUIRY FROM AGENCY MANAGEMENT TO LEGAL COUNSEL CONCERNING CONTINGENT LIABILITIES FOR LITIGATION, CLAIMS, AND ASSESSMENTS

[CFO Office Letterhead]

Date: [No later than October 15]

To: General Counsel

From: Chief Financial Officer

Subject: [Auditor's] Audit of the Fiscal Year XXX0 Financial Statements

Pursuant to 31 U.S.C. § 3515, the [Auditor name] is conducting an audit of the financial statements of the [Government entity] as of and for the fiscal year ended September 30, XXX0. In performing audits of government entities, auditors are required to follow Government Auditing Standards, issued by the Comptroller General of the United States (the “Yellow Book”). For financial statement audits, Government Auditing Standards incorporate the fieldwork and reporting standards of the American Institute of Certified Public Accountants (AICPA) and the Statements on Auditing Standards that interpret them. Consistent with the procedures contained in AU 337 of the AICPA’s Codification of Statements on Auditing Standards, [Auditor] has inquired about litigation, claims, and assessments to satisfy itself as to the financial accounting and reporting of such matters with respect to the financial statements. The purpose of this letter is to request your assistance in responding to that inquiry. The American Bar Association “Statement of Policy Regarding Lawyers’ Responses to Auditors’ Request for Information” (December 1975) provides relevant guidance for the lawyer’s response to the auditor’s request.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 5, “Accounting for Liabilities of the Federal Government,” as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5, [Government entity] reports certain information in its financial statements and notes concerning contingent liabilities for litigation, claims, and assessments. We request that you provide [Auditor] (with a copy to me) with information involving matters with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [Government entity] in the form of legal consultation or representation. You should furnish an interim response by [agreed-upon date]¹², including matters that existed as of

¹² When agreeing on due dates, auditors and CFOs may want to consider the due dates for providing legal letters for the governmentwide financial statements discussed in paragraph 8. of the

September 30, XXX0, and from that date through at least December 1, XXX0. You should furnish an updated response by [agreed-upon date]¹³, that is effective no earlier than February 15, XXX1, that includes any changes from the interim response, or a statement that there are no changes.

Include any cases with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [Government entity] in the form of legal consultation or representation, even those cases where you believe the Judgment Fund or some financing source other than [Government entity]'s budgetary resources will pay any potential loss. Under generally accepted accounting principles, such amounts should be included as liabilities or disclosure items in the [Government entity]'s financial statements. Cases similar in nature should be aggregated where appropriate. It would be helpful if you could list the matters in order of the amount of potential loss, starting with the largest.

Pending or Threatened Litigation (excluding unasserted claims)

We and [Auditor] have determined that any matters where the amount of potential loss exceeds \$X, individually or in the aggregate, could be material to the financial statements. Please provide to [Auditor] the information described below about pending or threatened litigation where the amount of potential loss exceeds \$X¹⁴:

1. The nature of the matter. Include a description of the case or cases and amount claimed, if specified.
2. The progress of the case to date.
3. The government's response or planned response (for example, to contest the case vigorously or to seek an out-of-court settlement).
4. An evaluation of the likelihood of unfavorable outcome. Please categorize likelihood as probable (an unfavorable outcome is likely to occur), reasonably possible (the chance of an unfavorable outcome is less than probable but more than remote), or remote (the chance of an unfavorable outcome is slight).
5. An estimate of the amount or range of potential loss, if one can be made, for losses considered to be probable or reasonably possible.

Audit Bulletin.

¹³ See footnote 12.

¹⁴ Management and the auditor should agree on a materiality level to use in the letter of inquiry. A guideline for setting the materiality level for the legal letter is 0.5 percent of planning materiality, as defined in the President's Council on Integrity and Efficiency (PCIE) Policy Manual: Federal Financial Statement Audit Manual and GAO's Financial Audit Manual.

6. The name of the [Government entity]'s attorney handling the case and names of any outside legal counsel/other lawyers representing or advising the government in the matter (Department of Justice or outside law firms).

Unasserted Claims and Assessments

Please provide the following information for all unasserted claims and assessments that you consider to be probable of assertion and which, if asserted, would have at least a reasonable possibility (more than remote) of an unfavorable outcome in an amount over \$X, individually or in the aggregate, involving matters to which you have devoted substantive attention.

1. A description of the nature of the matter.
2. The government's planned response if the claim is asserted.
3. An evaluation of the likelihood of an unfavorable outcome. (Categorize likelihood as probable (likely to occur) or reasonably possible (less than probable but more than remote).)
4. An estimate of the amount or range of potential loss, if one can be made.

Please specifically confirm to [Auditor] that our understanding of the following is correct: whenever, in the course of performing legal services for us, with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial statement disclosure, if you have formed a professional conclusion that we should disclose or consider disclosure concerning such possible claim or assessment, as a matter of professional responsibility to us, you will: (1) advise us of your conclusion, and (2) consult with us concerning the question of such disclosure and the applicable requirements of SFFAS No. 5, as amended.

Please separately identify any cases with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the [Government entity] in the form of legal consultation or representation for which you believe another government entity will be responsible for any potential liability.

Please specifically identify the nature of and reasons for any limitations on your response to this request.

Please address your reply to [Auditor], and contact him/her at (phone number), when your reply is available for pick up, and send a copy of your reply to me. Do not hesitate to contact me or [Auditor] if you have any questions regarding this request.

[Signed by]
Chief Financial Officer

**ILLUSTRATIVE RESPONSE FROM LEGAL COUNSEL CONCERNING
LITIGATION, CLAIMS, AND ASSESSMENTS¹⁵**

[General Counsel Letterhead]

Date:

To: Inspector General / Independent Auditor

From: General Counsel

Subject: Legal Response in connection with the XXX0 Financial Statement Audit of [agency name]

As General Counsel of [Name of Agency], I am writing in response to the letter of inquiry from the Agency's Chief Financial Officer dated ____, in connection with the audit of [Name of Agency]'s financial statements as of and for the fiscal year ended September 30, XXX0.

I call your attention to the fact that as General Counsel for the Agency, I have general supervision of the Agency's legal affairs. [If the general legal supervisory responsibilities of the person signing the letter are limited, set forth a clear description of those legal matters over which such person exercises general supervision, indicating exceptions to such supervision and situations where primary reliance should be placed on other sources.] In such capacity, I have reviewed litigation and claims threatened or asserted involving the Agency and have consulted with outside legal counsel with respect thereto where I have deemed appropriate.

Subject to the foregoing and to the last paragraph of this letter, I advise you that since [insert date of beginning of fiscal year period under audit] neither I, nor any of the lawyers over whom I exercise general legal supervision, have given substantive attention to, or represented the Agency in connection with [material¹⁶] loss contingencies coming within the scope of clause (a) of Paragraph 5 of the Statement of Policy referred to in the last paragraph of this letter, except as follows:

¹⁵ This illustrative response is based on examples presented in AU Section 337C, "ABA Statement of Policy Regarding Lawyers' Responses to Auditor's Requests for Information," of the Codification of Statements on Auditing Standards.

¹⁶ See Paragraph 3 of the American Bar Association (ABA) Statement of Policy and the accompanying Commentary for guidance where the response is limited to material items.

[Describe litigation and claims which fit the foregoing criteria as follows:]¹⁷

Pending or Threatened Litigation (excluding unasserted claims)

- a. Nature of the matter (include a description of the case or cases and amount claimed, if specified).
- b. Progress of the case to date.
- c. Current or intended response.
- d. Evaluation of the likelihood of an unfavorable outcome (categorize likelihood as probable, reasonably possible, or remote).
- e. Estimated amount or range of potential loss, if determinable, for losses considered to be probable or reasonably possible.
- f. Name of [Government entity]’s attorney handling the case and names of any outside legal counsel representing or advising the government in the matter.

With respect to matters which have been specifically identified as contemplated by clauses (b) or (c) of paragraph 5 of the ABA Statement of Policy, I advise you, subject to the last paragraph of this letter, as follows:

Unasserted Claims and Assessments (considered to be probable of assertion and which, if asserted, would have at least a reasonable possibility of an unfavorable outcome)

- a. Nature of the matter.
- b. Intended response if claim would be asserted.
- c. Evaluation of the likelihood of an unfavorable outcome. (Categorize likelihood as probable or reasonably possible.)
- d. Estimated amount or range of potential loss, if determinable.

The information set forth herein is [(as of the date of this letter) or (as of (insert date), the date on which we commenced our internal review procedures for purposes of preparing this response)], except as otherwise noted, and I disclaim any undertaking to advise you of changes which thereafter may be brought to my attention or the attention of our lawyers over whom I exercise general legal supervision.

This response is limited by, and in accordance with, the ABA Statement of Policy Regarding Lawyers’ Responses to Auditors’ Requests for Information (December 1975); without limiting the generality of the foregoing, the limitations set forth in such Statement on the scope and use of this response (Paragraphs 2 and 7) are specifically incorporated herein by reference, and any description herein of any “loss contingencies” is qualified in its entirety by Paragraph 5 of the Statement and the accompanying Commentary (which is an integral part of the Statement). Consistent with the last sentence of Paragraph 6 of the ABA Statement of Policy, this will confirm as correct the Agency’s understanding that whenever, in the course of performing legal services for the Agency with respect to a matter recognized to involve an unasserted possible claim or assessment that may call for financial

¹⁷ It is expected that cases or matters will be aggregated where appropriate.

statement disclosure, I have formed a professional conclusion that the Agency must disclose or consider disclosure concerning such possible claim or assessment, I, as a matter of professional responsibility to the Agency, will so advise the Agency and will consult with the Agency concerning the question of such disclosure and the applicable requirements of Statement of Federal Financial Accounting Standards (SFFAS) Number 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS Number 12, and Interpretation Number 2 of SFFAS Numbers 4 and 5. [Describe any other or additional limitation as indicated by Paragraph 4 of the Statement.]

cc: Chief Financial Officer

**FORMAT FOR MANAGEMENT'S SCHEDULE OF INFORMATION CONTAINED IN LEGAL RESPONSES
FOR FINANCIAL REPORTING PURPOSES¹⁸**

1	2	3	4	5			6	7
Reference Key	Amount Claimed	Name of Case/ Related Cases	Likelihood of Loss	Amount or range of potential loss			Disposition in Financial Statements	
				(a) P	(b) R/P	(c) Upper	Amt. Recorded	Note Disclosure
	\$			\$	\$	\$	\$	

Instructions

General:

1. Matters should be listed on this schedule in order of the amount or range of potential loss, starting with the largest.
2. The level of aggregation should generally be at the same level as in the legal counsel's letter. However, there may be instances where the level of aggregation is too high to be able to prepare this schedule in a way that is meaningful. In such cases, the CFO should work with legal counsel to provide further disaggregation of dissimilar cases. There may also be other instances where a higher level of aggregation is desirable. CFOs should use professional judgment, considering the purpose of this schedule when determining the level of aggregation.

Column:

1. **Reference Key:** Page number of the legal representation letter obtained from General Counsel discussing the case, or other reference information.
2. **Amount Claimed:** Amount claimed in the litigation, claim, or assessment (if specified).
3. **Name of Case / Related Cases:** Self-explanatory.
4. **Likelihood of Loss:** List management's evaluation of the likelihood of loss:
Options: P: Probable (loss is likely to occur)
 R/P: Reasonably Possible (the chance of loss is less than probable, but more than remote)
 R: Remote (chance of loss is slight)
 U: Legal Counsel Unable to Determine
5. **Amount or Range of Potential Loss:**
Options: 5a: Probable (P): Provide single estimate or lower end of range, if known. Enter "U," if unknown. (Also, provide column totals.)

¹⁸ As required by paragraph 8.b. of OMB's Audit Bulletin, the CFO shall prepare and the auditor shall review a summary of the information contained in the legal counsel's response using this format. An electronic version of this form is available in Microsoft Excel at OMB's website on the Internet at <http://www.whitehouse.gov/OMB/financial>

5b: Reasonably Possible (R/P): provide single estimate or lower end of range, if known. Enter “U,” if unknown. (Also, provide column totals.)

5c: If the estimate in 5a or 5b is a range, provide upper end of range; otherwise, enter “n/a.”

6. **Disposition in Financial Statements - Amount Recorded:** If applicable, provide dollar amount recorded as a liability in the financial statements. (Also, provide column totals.)
7. **Disposition in Financial Statements - Note Disclosure:** If applicable, indicate by note reference number where case information is separately disclosed or included in amounts disclosed in notes to the financial statements.

AGREED-UPON PROCEDURES**RETIREMENT, HEALTH BENEFITS, AND LIFE INSURANCE
WITHHOLDINGS/CONTRIBUTIONS AND SUPPLEMENTAL SEMIANNUAL
HEADCOUNT REPORT SUBMITTED TO THE
OFFICE OF PERSONNEL MANAGEMENT*****OBJECTIVE***

Assist the Office of Personnel Management (OPM) in assessing the reasonableness of Retirement, Health Benefits, and Life Insurance withholdings and/contributions as well as enrollment information submitted via the Semiannual Headcount Report.

BACKGROUND

The Agreed-Upon Procedures (AUPs) relating to the submission to OPM of withholdings/contributions for Retirement, Health Benefits, and Life Insurance relate to the use of the Retirement and Insurance Transfer System (RITS). RITS is the authorized method of submission of withholding and contribution information to OPM. Agency payroll offices (APOs) that are technically unable to transmit benefit information to OPM via RITS may continue to submit withholdings and contributions via the hard copy SF 2812 (and SF 2812-A), "Report of Withholdings and Contributions for Health Benefits, Life Insurance and Retirement to OPM." The AUPs to be applied to those APOs submitting withholdings and contributions to OPM via the hard copy SF 2812 forms are similar to those for RITS.

PROCEDURES

Gain an understanding of the APO's procedures for reconciling payroll information to RITS submissions. Obtain the APO's most recent Semiannual Headcount Report submitted to OPM and a summary of RITS submissions for the current fiscal year. Randomly select three RITS submissions for the current fiscal year, one of which coincides with the most recent Semiannual Headcount Report. Obtain payroll information for the periods covered by the RITS submissions selected.

Note that, as used in these AUPs, the term payroll information refers to all payroll information, whether it be a payroll register, payroll data file, or other payroll support data.

1. Compare RITS submission data with payroll information by performing the following procedures:
 - 1.a. Foot the payroll information. If the auditor chooses to use a subset of payroll information, the subset must be representative of all payroll information and be subject to the same control procedures over payroll information associated with the three RITS submissions selected.

- 1.b. Trace employee withholding information shown on the payroll information footed in step 1.a. for Retirement, Health Benefits, and Life Insurance (as adjusted for reconciling items) to the related amounts shown on the RITS submission for the corresponding period.
- 1.c. Obtain support for differences between amounts shown on the source of payroll information (e.g., payroll register, payroll data, etc.) or derived from files footed in step 1.a. and amounts shown on the RITS submission selected.
- 1.d. Trace reconciling items to supporting documentation and verify agreement.
- 1.e. Foot each RITS submission selected.

Report any differences or exceptions that are unsupported or unsubstantiated, or represent an error.

- 2. Review or perform a reconciliation of payroll information, including RITS data, to the agency's general ledger. For the three pay periods selected, review the agency's reconciliation of payroll transactions to its general ledger expense and cash disbursement accounts or, if such reconciliation does not exist, perform the reconciliation. Agencies should post Retirement, Health Benefits, and Life Insurance employer contributions to Standard General Ledger (SGL) account 6400–Benefits Expense. Report when the APO did not prepare the reconciliation. Also report any unsupported or unsubstantiated differences (i.e., gross rather than net) in the total payroll paid for the selected pay period and the amount recorded in the general ledger that exceeds 5 percent of total payroll. Report any differences (i.e., gross rather than net) between the withholding and contributions reported on the RITS submissions and the amounts posted to the SGL accounts greater than 1 percent. Employee contributions should be reported to 6400N and employer contributions to 6400G. Report postings of employer contributions for Retirement, Health Benefits, and Life Insurance to any SGL account other than account 6400G.

For further information, see the FACTS Elimination Guidance at www.fms.treas.gov/cfs/dev/index.html

- 3. Agree employee salary and contributions to the SF-50 (“Notification of Personnel Action”), authorized withholding/contributions, and benefit program elections. Randomly select a total of 25 individuals who were on the payroll system for all three of the RITS submissions selected for testing above. The 25 employees must be selected from a pool of employees who meet each of the following characteristics: covered by Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS); enrolled in the Federal Employees Health Benefits Program; covered by Basic Life Insurance; and covered by at least one FEGLI optional coverage (Option A, B, or C). Obtain the Official Personnel File (OPF) for each individual selected, and perform the following procedures:

- 3.a. Verify that the base salary used for payroll purposes and upon which withholdings and contributions generally are based agrees with the base salary reflected on the employees' SF-50.
- 3.b. For Retirement, verify that amounts withheld and contributed for participants in the CSRS and the FERS are correct, based upon the official withholdings and contribution rates required by law. *[See Payroll Office Letters P-98-13 and P-99-27.]*
- 3.c. For Health Benefits, verify that employee withholdings and agency contributions agree with the official subscription rates issued by OPM for the plan and option elected by the employees, as documented by a Health Benefits Registration Form (SF-2809) in the employees' OPF. *See Payroll Office Letters P-98-10 and P-99-24, for FY 2000 rates.*

If an employee elected his/her current health plan via Employee Express, there likely will not be documentation in the OPF. Employee Express is an automated system that allows employees to process health benefits enrollment changes, without having to submit a hard-copy enrollment form (SF2809); further information may be obtained at www.EmployeeExpress.gov. In addition, some agency payroll systems also afford the ability to effect health benefits enrollment changes without use of SF 2809. The auditor must obtain documentation from Employee Express, which maintains a history of all FEHB transactions entered by employees, or from the payroll systems that afford the capability of end-user update. Rather than requesting documentation directly from Employee Express, auditors should work through each agency's personnel office. Employee Express key representatives have been apprised of this potential requirement.

- 3.d. For Life Insurance, verify that Basic Life Insurance was elected by the employees, as documented by a Life Insurance Election Form (SF 2817), in his/her OPF and that withholdings and contributions are correct.
 - i. For employee withholdings: Round the employee's annual base salary to the nearest thousand dollars and add \$2,000. For pay periods beginning on or after 4/24/99, divide this total by 1,000 and multiply by \$0.155 (for APOs with biweekly pay periods) or \$0.3358 (for APOs with monthly pay periods).
 - ii. For agency contributions: Divide the employee withholdings derived in step 3.d.i. by two.
- 3.e. Also, for Life Insurance, verify Optional coverage was elected, as documented by an SF 2817 in the employees' OPF, and that withholdings are correct. The withholding rates for Options A, B, and C are based upon the age of the employee and the amount of coverage elected. *[See the April 1999 revised "FEGLI Program Booklet" RI 76-21 available at www.opm.gov/insure/life/index.htm.]* Report any differences or exceptions that are unsupported or unsubstantiated, or represent an error.

Note: For step 3.e. only, randomly select additional individuals as necessary so that 10 individuals are selected for each Life Insurance option (i.e., Options A, B, and C).

4. Randomly select a total of 10 employees, who have no Health Benefits withholdings, from the payroll information corresponding to the three RITS submissions selected for testing above. Verify from a review of the OPF that the employees did not elect Health Benefits coverage -- this may be proven by the absence of an election form SF 2809 in the OPF, if the employee never elected coverage. Alternatively, for an employee who canceled enrollment after having been enrolled in the Health Benefits program, look for an SF 2809 with Section E checked, indicating election of coverage cancellation. Report any exceptions that are unsupported or unsubstantiated, or represent an error.

To conclude with finality that there was no election of Health Benefits, the auditor must first confirm with Employee Express, via the agency's personnel office, that no election was made or coverage canceled by this means.

5. Randomly select a total of 10 employees who have no Life Insurance withholdings from the payroll information corresponding to the three RITS submissions selected for testing above. Verify that the employees either waived or canceled Life Insurance coverage. This will be proven by the presence in the OPF of an SF 2817, by which an employee waives or cancels Basic Life Insurance coverage. Report any exceptions.
6. Calculate the headcount reflected on the Semiannual Headcount Report selected for testing above, as follows.

- 6.a. Obtain existing payroll information supporting the selected Supplemental Semiannual Headcount report. If existing payroll data is not available, have a payroll system query performed that summarizes detailed payroll data supporting the Supplemental Semiannual Headcount Report, as follows:

- Benefit Category [see Semiannual Headcount Report].
- Dollar Amount of withholdings and contributions.
- Number Enrolled (deductions made/no deductions).
- Central Personnel Data File Code.
- Aggregate Base Salary.

It may be that the payroll information needed to recalculate the selected Headcount Report is no longer available on the payroll system. If such is the case, query the payroll information currently residing on the payroll system and compare it to the selected Headcount Report. Account for any significant personnel changes that may affect withholdings, contributions, and numbers of employees enrolled.

- 6.b. Recalculate the Headcount reflected on the Semiannual Headcount Report. A suggested method of recalculating the Headcount is as follows: (1) estimate the number

of employees per payroll register page by counting the employees listed on several pages, (2) count the number of pages in the payroll register, and (3) multiply the number of employees per page by the number of pages, or count (using a computer audit routine) the number of employees on the payroll data file for the period.

- 6.c. Compare the results of payroll information from step 6.a with the calculated headcount from step 6.b to the information shown on the Semiannual Headcount Report.
 - 6.d. Report any differences (i.e., gross rather than net) greater than 2 percent between the headcount reporting on the agency's Semiannual Headcount Report and payroll information from step 6.a and the calculated Headcount from step 6.b.
7. Calculate employer and employee contributions for Retirement, Health Benefits, and Life Insurance.
- 7.a. Calculate Retirement withholdings and contributions for the three pay periods selected, as follows:
 - i. Multiply the CSRS and FERS payroll base by the withholding and employer contribution rates required by law.
 - ii. Compare the calculated totals with related amounts shown on the RITS submissions. Report any variances (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than 5 percent.
 - 7.b. Calculate employee withholdings and employer contributions for Health Benefits for the three pay periods selected, as follows:
 - i. Multiply the number of employees enrolled in each Health Benefit plan and plan option by the employee withholdings and employer contributions for the plan and option.
 - ii. Sum the totals in step 7.b.i. and compare the result with the Health Benefit withholding and contribution amounts shown on the RITS submissions. Report any variances (i.e., gross rather than net) between the calculated amounts and the amounts reported on the RITS submissions greater than 5 percent.
 - 7.c. Calculate the Basic Life Insurance employee withholdings and employer contributions for the three pay periods selected as follows:
 - i. Have APO personnel perform a payroll system query to determine the total number of employees with Basic Life Insurance Program coverage and the aggregate annual basic pay for all employees with Basic Life Insurance

Program coverage. (See the *CSRS/FERS Handbook*, Section 30A1.1-2 for definition of basic pay.)

- ii. For employee withholdings: Add the product of 2,000 times the number of employees with Basic Life Insurance coverage to the aggregate annual basic pay for all employees selected. This represents the estimated total Basic Life Insurance coverage. For pay periods beginning on or after 4/24/99, divide this total by 1,000 and multiply by \$0.155 (for APOs with biweekly pay periods) or \$0.3358 (for APOs with monthly pay periods).
 - iii. Compare the result in step 7.c.ii. to the withholdings for Basic Life Insurance coverage reported on the RITS submission. Report any difference (i.e., gross rather than net) between the estimate and the amount of withholdings reported on the RITS submission greater than 5 percent.
 - iv. For agency contributions: Divide the results of step 7.c.ii. by two -- this approximates agency contributions, which are one-half of employee withholdings. Compare this result to the amount reported on the RITS submission, and report any differences (i.e., gross rather than net) between the estimate and the amount reported on the RITS submission greater than 5 percent.
- 7.d. Calculate the Option A and Option C Life Insurance coverage withholdings for the three pay periods selected by using the results of payroll system queries from step 6.a or have the APO personnel perform a payroll system query that summarizes the number of employees, by age group, who elected Options A and C during the pay periods selected.
- i. Multiply the number of employees in each age group by the appropriate rate for Option A or Option C, in accordance with the rates for age groups provided in the FEGLI Program Booklet for pay periods beginning on or after 4/24/99. Report any differences (i.e., gross rather than net) greater than 2 percent for Option A and/or Option C.
 - ii. Contributions for Option B cannot be tested for reasonableness by these methods because of the number of variables involved in electing this option.

INQUIRIES

Questions on the application of the AUPs should be directed to OPM's Financial Policy Staff at (202) 606-0606, or via the Internet at: finance@opm.gov.

**ILLUSTRATIVE INDEPENDENT ACCOUNTANT'S REPORT ON THE
APPLICATION OF AGREED-UPON PROCEDURES**

To the Inspector General
U.S. Office of Personnel Management:

We have performed the procedures described below (or in the attachment), which were agreed to by the Inspector General, Chief Financial Officer, and the Associate Director for Retirement and Insurance of the U.S. Office of Personnel Management (OPM), solely to assist with respect to the employee withholdings and employer contributions reported on the Report of Withholdings and Contributions for Health Benefits, Life Insurance, and Retirement for the payroll periods ended [state dates] and Semiannual Headcount Report as of [state date]. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Inspector General, Chief Financial Officer, and the Associate Director for Retirement and Insurance of OPM. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Insert the following unless the procedures and findings are in an attachment.

The procedures and the associated findings are as follows:

[Insert procedures and findings]

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the withholdings and contributions for Health Benefits, Life Insurance, and Retirement, and the Headcount Report of the [name of agency]. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Inspector General, Chief Financial Officer, and the Associate Director for Retirement and Insurance of OPM and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

[Signature]

[Date]

cc: Chief Financial Officer of OPM
Associate Director of Retirement and Insurance of OPM